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PASS CEA, TREASURY, FRB

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: NOVEMBER 5-6 SHORT-TERM FORECASTERS MEETING
(STFC): OECD SECRETARIAT AND COUNTRY ASSESS-
MENT OF SHORT-TERM ECONOMIC OUTLOOK

1. SUMMARY: DISCUSSION OF ECONOMIC PROSPECTS FOR 1976 AT NOVEMBER 6-7 SHORT-TERM FORECASTERS MEETING REVEALED SIGNIFICANT DIFFERENCES BETWEEN COUNTRIES' ESTIMATES OF 1976 GROWTH, PRICES AND TRADE AND THOSE OF SECRETARIAT. COUNTRY/SECRETARIAT DIFFERENCES IN 1975 ESTIMATES WERE INCONSEQUENTIAL. MAJOR CAUSES OF DIVERGENT FORECASTS FOR 1976 WERE WIDELY DIFFERING ESTIMATES OF GNP GROWTH AND PRICES IN THE U.S., AND OF GNP GROWTH IN GERMANY. COUNTRIES' FORECASTS OF EXPORT AND IMPORT VOLUMES WERE GLOBALLY CONSISTENT, BUT IMPLIED HIGHER OVERALL LEVEL OF ECONOMIC ACTIVITY THAN FORESEEN BY SECRETARIAT AND THUS A GROWTH IN WORLD TRADE WHICH EXCEEDED SECRETARIAT'S EXPECTATIONS. IN GENERAL, COUNTRY/SECRETARIAT DIFFERENCES NOT ATTRIBUTABLE TO DIVERGENT ASSUMPTIONS CONCERNING 1976 STOCK BEHAVIOR, BUT TO DIFFERING FORECASTS OF FINAL DEMAND AND, ALTHOUGH SECRETARIAT AGREES THAT TURNING POINT HAS BEEN REACHED, IT PREDICTS TRAJECTORY OF RECOVERY SIGNIFICANTLY BELOW COUNTRY FORECASTS. SECRETARIAT (ANDERSEN) NOTED THAT THIS MEETING WAS PARTICULARLY IMPORTANT IN LIGHT OF NEED TO RECONCILE DIFFERENCES WHICH ALSO CAME TO LIGHT IN NOVEMBER 4-5 WP-3 MEETING, AND STATED SECRETARIAT'S INTENTION OF CAREFULLY REVIEWING ITS FORECASTS PARTICULARLY FOR GERMANY AND U.S. IN LIGHT OF STFC AND CIRCULATING PAPER OUTLINING RESULTS TO NOVEMBER 18-19 EPC MEETING. HOWEVER, SECRETARIAT NOT EXPECTED TO MOVE MORE THAN PARTLY TOWARD U.S. AND GERMAN VIEWS. END SUMMARY.

2. COUNTRY PROSPECTS: U.S.: SECRETARIAT FORECAST 1976 REAL GNP GROWTH OF 5.4 PERCENT, INFLATION RATE OF LIMITED OFFICIAL USE

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7.4 PERCENT (AS MEASURED BY CPI), AND CURRENT ACCOUNT SURPLUS OF \$7.4 BILLION AS OPPOSED TO U.S. ESTIMATES OF 7 PERCENT, 6.4 PERCENT AND \$1 BILLION RESPECTIVELY FOR THESE AGGREGATES. CONCERNING GROWTH OF GNP, U.S. AND SECRETARIAT AGREED THAT STOCK-BUILDING WOULD CONTRIBUTE LITTLE TO 1976 GROWTH, BUT U.S. ESTIMATES 5.6 PERCENT GROWTH IN FINAL DEMAND AS COMPARED TO SECRETARIAT FORECAST OF 3.6 PERCENT. WHILE SECRETARIAT AND U.S. BOTH

ASSUMED CURRENT TAX WITHHOLDING RATES WILL CONTINUE THROUGH 1976 AND THAT GOVERNMENT EXPENDITURE WILL BE ABOUT \$370 BILLION, /U.S. SEES HIGHER LEVELS OF FIXED INVESTMENT AND PRIVATE CONSUMPTION THAN SECRETARIAT. U.S. ARGUED THAT ACTUAL LEVEL OF SLACK SMALLER THAN ESTIMATED BY SECRETARIAT. GROWTH OF EFFECTIVE CAPACITY (I.E. GROWTH OF CAPITAL STOCK) HAS BEEN ONLY 3.5 PERCENT SINCE 1970, WHILE SECRETARIAT HAD ASSUMED 4 PERCENT GROWTH OF POTENTIAL OUTPUT. THIS, PLUS SPECIAL FACTORS SUCH AS ENVIRONMENTAL REGULATIONS, INVESTMENTS RELATED TO ENERGY AND PLANT OBSOLESCENCE, SHOULD MEAN THAT FIXED INVESTMENT DEMAND WILL BE AVAILABLE AND IN FACT BOTTLENECKS TO EXPANSION MAY APPEAR AS EARLY AS 1977. U.S. ALSO NOTED THAT IN NEGLECTING FEDERALLY-ASSISTED HOUSING STARTS UNDERWRITTEN BY RECENTLY-ENACTED LEGISLATION SECRETARIAT UNDERESTIMATED 1976 INVESTMENT. FURTHERMORE, U.S. DEL STATED THAT WITH SHARE OF PROFITS IN U.S. NATIONAL INCOME (11 PERCENT) HIGHEST SINCE 1968, AND DECELERATING INFLATION RATE WHICH WILL RAISE EFFECTIVE AFTER-TAX PROFITS, U.S. CORPORATIONS SHOULD BE WELL PLACED TO

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EXPAND FIXED CAPITAL IN 1976.

3. RE PRICES, SECRETARIAT ASSUMED ONE-YEAR PHASED DECONTROL OF OIL PRICES BEGINNING IN MID-NOVEMBER, WHILE U.S. POSTULATES SAME INITIAL DATE, BUT WITH DECONTROL PHASED OVER 39 MONTHS. SECRETARIAT ACCEPTED U.S. ASSUMPTION, AND THIS WILL HAVE EFFECT OF LOWERING SECRETARIAT INFLATION ESTIMATE BY 0.7 PERCENT. U.S. ADDED THAT RECENT SPOT AND FUTURES AGRICULTURE PRICES POINTED TO LESS INCREASE (7 PERCENT OR LOWER) IN 1976 AGRICULTURAL PRICES THAN FORECAST BY SECRETARIAT (8 PERCENT), AND THAT COMFORTABLE PROFITS AND INCREASED COMPETITION MILITATED AGAINST RAPID INCREASE IN MANUFACTURING PRICES.

4. U.S. FORECASTS 5 PERCENT INCREASE IN REAL CONSUMPTION SPENDING VS. 4 PERCENT PREDICTED BY SECRETARIAT. U.S. ARGUED THAT SECRETARIAT ARGUMENTS SUPPORTING ASSUMPTION OF 8 PERCENT SAVINGS RATIO IN 1976 WERE INTERNALLY INCONSISTENT AND THAT OVERESTIMATION OF PRICE INCREASE WOULD AFFECT ESTIMATION OF REAL CONSUMPTION (AS WELL AS

OTHER AGGREGATES). ALTHOUGH U.S. AND SECRETARIAT FORECASTS OF NOMINAL WAGE COST INCREASE ARE NOT MARKEDLY DIFFERENT, HIGHER U.S. ESTIMATES OF REAL GNP GROWTH LEAD TO HIGHER PRODUCTIVITY ESTIMATES AND CONSEQUENTLY TO LESS RISE IN UNIT LABOR COSTS.

5. SECRETARIAT SEES U.S. CURRENT ACCOUNT BALANCE MOVING FROM \$12 BILLION SURPLUS IN 1975 TO \$7.4 BILLION SURPLUS IN 1976; U.S. PREDICTS SHRINKAGE OF SURPLUS TO SOME \$1 BILLION IN 1976. WHILE U.S./SECRETARIAT FORECASTS OF 1976 EXPORT VOLUME INCREASE ARE CLOSE, U.S. SEES ONLY A 1.7 PERCENT INCREASE IN AVERAGE EXPORT VALUES COMPARED TO SECRETARIAT FORECAST OF 6.8 PERCENT (AGRICULTURAL PRICE ESTIMATES ACCOUNT FOR MUCH OF DIFFERENCE, SEE PARA 3). RE IMPORTS, US PREDICTS 16.6 PERCENT VOLUME LIMITED OFFICIAL USE

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INCREASE WHILE SECRETARIAT FORESEES 10.4 PERCENT INCREASE; AVERAGE VALUE ESTIMATES ARE ROUGHLY EQUIVALENT.

6. BOTH US AND SECRETARIAT ASSUMED MONEY SUPPLY WOULD GROW AT TARGET RATES ANNOUNCED BY FRB. SECRETARIAT FELT THIS MIGHT BE CONSTRAINT TO RECOVERY. US FELT, IN CONTRAST, THIS MONEY SUPPLY (WITH SOME INCREASE IN VELOCITY) WOULD BE ADEQUATE FOR PROJECTED GROWTH AND BOTH CONSISTENT WITH AND SUPPORTIVE OF LOWER INFLATION RATE IN U.S. ESTIMATE.

7. FRG: SECRETARIAT FORECAST OF 1.6 PERCENT GROWTH OF REAL GNP WIDELY DIVERGENT FROM FRG ESTIMATE OF 5 PERCENT. PART OF THIS DIFFERENCE LIES IN SECRETARIAT ASSUMPTION THAT INVESTMENT INCENTIVES WOULD END IN MID-1976, WHILE FRG NOTED THAT PROGRAM WOULD NOT END UNTIL MID-1977. IN ADDITION, FRG FELT THAT INDIRECT TAX PACKAGE TO BE IMPLEMENTED JANUARY 1, 1977, HAD GOOD CHANCE OF PASSAGE, WHILE SECRETARIAT MINIMIZED THIS POSSIBILITY. THUS FRG, UNLIKE SECRETARIAT, HAD COUNTED ON ANTICIPATORY CONSUMER BUYING DURING 1976. SECRETARIAT AGREED THAT ALLOWANCE SHOULD BE MADE FOR THESE FACTORS WHICH TOGETHER WOULD RAISE SECRETARIAT'S GNP ESTIMATE TO 2.1 PERCENT. FRG ADDED THAT SECRETARIAT HAD NOT ACCOUNTED FOR EFFECTS OF FOUR EXTRA WORK DAYS IN 1976 (LEAP YEAR, PLUS THREE HOLIDAYS FALLING ON WEEKENDS), AND NOTED THAT THIS WOULD ADD AS MUCH AS 1 PERCENT TO SECRETARIAT'S GNP FORECAST. FRG ALSO POINTED TO NEW DATA INDICATING RECOVERY OF NEW ORDERS BOTH IN MANUFACTURING AND IN EXPORTS. FRG AND SECRETARIAT REMAIN SEPARATED ON 1976 STOCK BEHAVIOR, WITH FRG

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EXPECTING 1.5 PERCENT BOOST TO GNP AND SECRETARIAT INSISTING THAT STOCKS STILL TOO HIGH, PREDICTING NO CONTRIBUTION TO GROWTH. FRG, ASSUMING 5-6 PERCENT INCREASE IN WORLD TRADE VOLUME, FORECASTS 5-6 PERCENT INCREASE IN EXPORTS, EQUIVALENT INCREASE IN IMPORTS BASED ON GNP PROJECTIONS, SOME IMPROVEMENT IN TERMS OF TRADE, AND THUS HIGHER CURRENT ACCOUNT SURPLUS THAN SECRETARIAT WHICH FORESEES VOLUME INCREASE IN EXPORTS OF 2.5 PERCENT; OF IMPORTS, 2.7 PERCENT, AND DETERIORATION OF TERMS OF TRADE. FRG PREDICTS SLIGHTLY HIGHER INFLATION RATE THAN SECRETARIAT, 5 PERCENT VS. 4.5 PERCENT.

8. JAPAN: JAPANESE SEE MAJOR UNCERTAINTIES IN 1976 GROWTH PICTURE AS GROWTH OF EXTERNAL MARKETS AND OF NET GOVERNMENT STIMULUS. JAPANESE HAVE NO FIRM 1976 GNP ESTIMATES AND ONLY NOTED THAT TARGET RATE WAS 6.2 PERCENT, BUT THAT ACTUAL RATE COULD BE AS LOW AS 5 PERCENT. SECRETARIAT ESTIMATE IS 4.5 PERCENT. SIMILARLY, JAPANESE HAVE NO FIRM 1976 PRICE FORECASTS; SECRETARIAT FORECAST IS 7.5 PERCENT (CPI).

9. FRANCE: SECRETARIAT FORECASTS MODERATE 1976 GNP GROWTH (2.5 PERCENT) AND DOUBLE-DIGIT INFLATION (11 PERCENT), WHILE FRENCH PREDICT 4.5 PERCENT REAL GROWTH AND 8 PERCENT INFLATION. FRENCH NOTED THAT REALIZATION OF GROWTH FORECASTS DEPENDED ON SEVERAL FAVORABLE ASSUMPTIONS: (1) RAPID IMPACT OF SEPTEMBER REFLATIONARY MEASURES; (2) INCREASE OF 4-7 PERCENT IN FIXED INVESTMENT (PUBLIC AND PRIVATE); (3) 5-6 PERCENT INCREASE IN EXPORT VOLUME; (3) INVENTORY ACCUMULATION; (4) 2.5 PERCENT INCREASE IN REAL PRIVATE CONSUMPTION.

10. UK: PRIMARY FACTORS EXPLAINING DIFFERENCES BETWEEN UK AND SECRETARIAT REAL GNP GROWTH ESTIMATES (2.4 PERCENT VS. -0.2 PERCENT) ARE LIMITED OFFICIAL USE

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DIFFERENCES IN PROJECTIONS OF XPORT VOLUME (8.3

PERCENT VS. 0.1 PERCENT) AND OF INFLATION RATE (11.3 VS. 16.7; GNP DEFLATOR).

11. ITALY: SECRETARIAT AND ITALIANS SEE LEVELING OFF IN GNP DECLINE OR MODERATE RECOVERY IN 1976, WITH ITALY AIMING AT 2 PERCENT REAL GROWTH AND SECRETARIAT PREDICTING GROWTH OF 1 PERCENT. (ITALIAN GNP FIGURES ARE TARGET RATHER THAN FORECAST ORIENTED.) MAIN DIVERGENCE IN ITALIAN/SECRETARIAT FORECASTS IS IN GROWTH OF PRIVATE CONSUMPTION, WHILE SECRETARIAT FORESEES 0.8 PERCENT GROWTH, ITALIANS EXPECT 8 PERCENT. DIFFERENCE ATTRIBUTABLE TO ITALY'S FORECAST OF LOWER INFLATION RATE THAN SECRETARIAT'S (10 PERCENT VS. 12 PERCENT), AND OF LOWER AVERAGE 1976 TAX RATE (17 PERCENT VS. 19 PERCENT). SECRETARIAT PROJECTS SMALL CURRENT ACCOUNT SURPLUS IN 1976, WHILE ITALY PROJECTS SMALL DEFICIT (\$-200 MILLION), BUT BOTH PARTIES AGREE THAT BALANCE OF PAYMENTS COULD BE GROWTH CONSTRAINT IN 1976, ESPECIALLY IN VIEW OF CURRENT HIGH LEVEL OF FOREIGN INDEBTEDNESS.

12. CANADA: MAJOR DIFFERENCE BETWEEN CANADIAN AND SECRETARIAT FORECASTS IS IN 1976 EXPORT VOLUME, WITH CANADA PROJECTING 11.8 PERCENT INCREASE COMPARED TO SECRETARIAT ESTIMATE OF 7.5 PERCENT. CANADIAN PROJECTION BASED ON 6 PERCENT GROWTH OF US REAL GNP, WHILE SECRETARIAT HAD PROJECTED 5.4 PERCENT. SECRETARIAT PREDICTED HIGHER RATE OF INFLATION, GREATER INCREASE IN COMPENSATION PER MAN-HOUR AND LOWER GROWTH IN REAL GNP THAN CANADIANS. PART OF DIFFERENCE IN PRICES AND WAGES ARISES BECAUSE OF DIFFERING CANADIAN/SECRETARIAT ASSESSMENT OF EFFECTIVENESS OF RECENT ANTI-INFLATION PROGRAM. R GNP GROWTH, SECRETARIAT FELT THAT RESTRICTIVE MONETARY POLICY COULD BE GROWTH CONSTRAINT, BUT CANADA DISCOUNTED THIS POSSIBILITY AND NOTED THAT ADVERSE SECTORAL EFFECTS OF INTEREST RATE INCREASES WOULD IN ANY CASE BE OFFSET BY SUBSIDIES.

12. SMALL COUNTRIES: BY EITHER SECRETARIAT'S OR COUNTRIES' GROWTH ESTIMATES FOR 1975 AND 1976, SMALL LIMITED OFFICIAL USE

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COUNTRIES SHOW EFFECTS OF LAGGING LARGE COUNTRIES IN RECESSION/RECOVERY CYCLE. AS GROUP, SMALL COUNTRIES SEE 1975 GNP FALL OF 1.2 PERCENT COMPARED TO SECRETARIAT ESTIMATE OF 1.4 PERCENT DROP AND LARGE-COUNTRY DECLINE OF -2.0 PERCENT (-2.3 PERCENT SECRETARIAT ESTIMATE). ON UPSWING, SMALL COUNTRIES SEE 2 PERCENT 1976 GROWTH AS OPPOSED TO SECRETARIAT

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FORECAST OF 0.9 PERCENT AND LARGE COUNTRY GROWTH OF 5.6 PERCENT (3.9 PERCENT SECRETARIAT FORECAST).

13. TRADE FORECASTS: COUNTRIES FORECAST LARGER 1976 INCREASE IN BOTH EXPORT VOLUME (6 PERCENT VS. 3.5 PERCENT) AND IMPORT VOLUME (7.75 PERCENT VS. 5 PERCENT) THAN DOES SECRETARIAT. COUNTRY IMPORT/EXPORT FORECASTS GLOBALLY CONSISTENT BUT REFLECT HIGHER OVERALL LEVEL OF ACTIVITY THAN FORESEEN BY SECRETARIAT.

14. FOLLOWING TABLES COMPARE COUNTRY AND SECRETARIAT ESTIMATES OF GNP GROWTH, PRICES AND TRADE.

TABLE 1

GNP

SECRETARIAT AND COUNTRY FORECASTS
PERCENTAGE CHANGES FROM PREVIOUS YEAR

1976

	COUNTRIES(C)	SECRETARIAT	
CANADA	5.3	4.7	
UNITED STATES	7.0	5.4	
JAPAN	..	4.5	
FRANCE (GDP)	4.5	2.5	
GERMANY	5.	L.6	
ITALY (GDP)	2.0	1.0	
UNITED KINGDOM (GDP)		2.4	-0.2
SEVEN MAJOR COUNTRIES		5.6	3.9
TOTAL SMALLER EUROPEAN COUNTRIES (B)	2.0	0.9	
TOTAL OTHER OECD COUNTRIES		2.3	1.5
TOTAL OECD	5.1	3.5	
OECD EUROPE	3.3	1.3	
EEC	3.7	1.4	

FOOTNOTES FOR TABLE 1:

(A) 1974 GNP WEIGHTS AND EXCHANGE RATES.

(B) INCLUDING ICELAND, LUXEMBOURG, PORTUGAL AND TURKEY.

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(C) THE SECRETARIAT FIGURES WERE USED FOR AGGREGATES
WHEN COUNTRIES' FORECASTS WERE NOT AVAILABLE.

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TABLE 2
GNP DEFLATORS
SECRETARIAT AND COUNTRY FORECASTS

PERCENTAGE FROM PREVIOUS YEAR

	1976		
	COUNTRIES (C) SECRETARIAT		
CANADA	8.8	9.8	
UNITED STATES	5.9	7.1	
JAPAN	..	5.6	
FRNCE (GDP)	8.4	10.6	
GERMANY	4.5	4.0	
ITALY (GDP)	12.0	12.0	
UNITED KINGDOM (GDP)	11.3	16.7	
SEVEN MAJOR COUNTRIES	6.7	7.8	
TOTAL SMALLER EUROPEAN			
COUNTRIES (B)	9.3	9.3	
TOTAL OTHER OECD COUNTRIES	10.7	10.7	
TOTAL OECD	7.3	8.2	
OECD EUROPE	8.4	9.4	
EEC	8.2	9.4	

FOOTNOTES FOR TABLE 2:

(A) 1974 GNP WEIGHTS AND EXCHANGE RATES

(B) INCLUDING ICELAND, LUXEMBOURG, PORTUGAL AND TURKEY

(C) THE SECRETARIAT FIGURES WERE USED FOR AGGREGATES WHEN
COUNTRIES' FORECASTS WERE NOT AVAILABLE.

TABLE 3

SECRETARIAT AND COUNTRY TRADE FORECASTS

PERCENT CHANGES IN VOLUME AT ANNUAL RATES

IMPORTS	EXPORTS
1975 TO 1976	1975 TO 1976

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	SECRE-	COUN-	SECRE-	COUN-
	TARIAT	TRIES	TARIAT	TRIES
CANADA	6.1	5.8	7.5	11.8
U.S.	10.4	16.6	4.7	4.4
JAPAN	10.5	13.4	4.7	7.5
FRANCE	5.5	11.5	2.3	6.0
GERMANY	2.5	5.5	2.7	5.5
ITALY	3.1	4.0	3.3	4.0
U.K.	2.9	3.4	0.1	8.3
TOTAL OECD	5	7.75	3.5	6
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Control Number: n/a
Copy: SINGLE
Draft Date: 10 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
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From: OECD PARIS
Handling Restrictions: n/a
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Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
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TAGS: ECON, OECD
To: STATE
Type: TE
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